



No. 28

December 10, 2012

## S. 3637 – Transaction Account Guarantee Extension

### Noteworthy

**Floor Situation:** The Senate has scheduled a vote on cloture on the motion to proceed to the Transaction Account Guarantee extension bill (S. 3637). Senator Reid filed cloture on the motion to proceed to the bill on December 6, 2012, setting up the cloture vote on the motion to proceed on Monday, December 10, 2012 at 5:30 p.m.

**Background:** S. 3637 was introduced by Senator Harry Reid on November 26, 2012. The bill has no cosponsors.

**Executive Summary:** S. 3637 will temporarily extend the Transaction Account Guarantee (TAG) program until December 31, 2014. It would instruct the Federal Deposit Insurance Corporation (FDIC) to estimate the expected losses due to the program's extension for each calendar year and to collect an amount equal to the expected losses by September 30 of each calendar year. The bill would require the FDIC to charge assessments in addition to the assessments that the FDIC would otherwise collect, but does not specify how this would be done. The current TAG program is set to expire on December 31, 2012.

### Overview

The FDIC's initial TAG program was a temporary response to the financial crisis. The program provided participating banks with unlimited deposit insurance for noninterest-bearing transaction accounts if the depositor was not permitted to make withdrawals at will. While used by consumers, these accounts are also used by businesses, local governments, and other entities as a cash management tool, often for payroll transactions. Under the initial version of this program,

banks participated on a voluntary basis and were allowed to opt-out of the program. Participating banks were charged a fee. On December 31, 2008, shortly after TAG was implemented, the program guaranteed approximately \$722 billion. When the FDIC extended TAG at the end of 2009, participating institutions were given the opportunity to exit the program. Many of the largest banks opted out, causing a large drop in the amount of deposits insured by TAG.

The 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act temporarily extended this program with some changes. The Dodd-Frank Act eliminated the ability of banks to opt-out of the program. As a result, the amount of deposits insured by TAG grew to approximately \$1.4 trillion.

According to the FDIC's Quarterly Banking Profile for the quarter ending September 30, 2012, insured institutions held \$1.7 trillion in noninterest-bearing transaction accounts larger than \$250,000, of which \$1.5 trillion exceeded the basic coverage limit of \$250,000. If the program expires, these accounts would be subject to the FDIC's current federal insurance limit of \$250,000. That would leave approximately \$1.5 trillion of current deposits uninsured.

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## **House Action**

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There has been no House action on a Transaction Account Guarantee extension.

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## **Bill Provisions**

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### **SECTION I -- INSURED DEPOSITORY INSTITUTION TRANSACTION ACCOUNT GUARANTEE PROGRAM**

Modifies the Federal Deposit Insurance Act to ensure the program remains in effect until December 31, 2014.

The Federal Deposit Insurance Corporation shall fully offset, in each calendar year, any estimated losses to the Deposit Insurance Fund that may occur each calendar year; and collect an amount equal to such estimated losses by September 30 of such calendar year, which shall be in addition to the assessments that would otherwise be collected by the FDIC with respect to such year for insured depository institutions.

### **SECTION II -- INSURED CREDIT UNION TRANSACTION ACCOUNT GUARANTEE PROGRAM**

Modifies the Federal Credit Union Act to ensure the program remains in effect until December 31, 2014.

The National Credit Union Administration (NCUA) shall fully offset, in each calendar year, any estimated losses to the National Credit Union Share Insurance Fund that may occur each calendar year; and collect an amount equal to such estimated losses by September 30 of such calendar year, which shall be in addition to the assessments that would otherwise be collected by the NCUA with respect to such year for insured depository institutions.

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### **Administration Position**

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A Statement of Administration Policy was not available at the time of publication.

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### **Possible Amendments**

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As of the publication of this Notice, there is no agreement on amendments.

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